

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Algonac	County St. Clair
Audit Date 6/30/05	Opinion Date 10/24/05	Date Accountant Report Submitted to State: 12/28/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

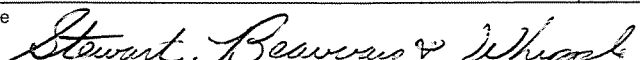
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple			
Street Address 1979 Holland Ave.	City Port Huron	State MI	ZIP 48060
Accountant Signature 		Date 12-28-05	

CITY OF ALGONAC, MICHIGAN

**ANNUAL FINANCIAL STATEMENTS
with Supplementary Information**

**FOR THE YEAR ENDED
JUNE 30, 2005**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CITY OF ALGONAC, MICHIGAN

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CITY OF ALGONAC, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Algonac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Algonac, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Algonac's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Algonac, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2005 on our consideration of the City of Algonac's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8, and schedules of budgetary comparisons on pages 38 through 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Algonac's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Beauvois & Whipple".

Certified Public Accountants

October 24, 2005

City of Algonac, Michigan

Management's Discussion & Analysis For the Year Ended June 30, 2005

This section of the City of Algonac's annual financial report presents our discussion and analysis of the City's financial performance during the year. Please read it in conjunction with the City's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements, representing the City of Algonac's financial performance during the fiscal year ended June 30, 2005. The statement of net assets and the statement of activities provide information about the activities of the City of Algonac on a government-wide basis. They are designed to present a longer-term view of the City's finances and resources. Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, and future amounts that remain for spending to provide for those services. Additionally, fund financial statements report the City's operations in more detail than government-wide financial statements.

The City of Algonac as a Whole

The City's combined net assets increased slightly from a year ago, increasing from approximately \$14,520,000 to \$14,570,000. A review of the governmental activities, separate from the Business-type activities, shows a decrease of -2.2 percent during the fiscal year ended June 30, 2005. This decrease does not include the \$200,000 reimbursement from Sewer Fund to the General Fund. This decrease was due to multiple reasons one of which was the result of cuts in federal, state & local grants. The primary reason for this excess of expenditures over revenues was the result of the City taking on additional one time capital purchases during the current fiscal year which included a contribution to the Capital Projects Fund for \$30,000 for the pool, and the resurfacing of the Smith Street Parking lot. The business related activities experienced a \$161,000 or 1.7 percent increase in net assets. This was primarily due to various capital acquisitions and infrastructure improvements throughout the fiscal year.

In a condensed format, the table below shows the comparison of net assets (in thousands of dollars) as of June 30, 2005:

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>June 30,</u>		<u>June 30,</u>			
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets						
Current and other assets	\$ 2,203,551	\$ 2,716,704	\$ 1,599,598	\$ 1,291,799	\$ 3,803,149	\$ 4,008,503
Capital assets	<u>3,035,965</u>	<u>2,693,603</u>	<u>11,988,280</u>	<u>12,313,647</u>	<u>15,024,245</u>	<u>15,007,250</u>
Total assets	<u>5,239,516</u>	<u>5,410,307</u>	<u>13,587,878</u>	<u>13,605,446</u>	<u>18,827,394</u>	<u>19,015,753</u>
Liabilities						
Current liabilities	182,019	253,209	407,123	386,533	589,142	639,742
Long-term liabilities	<u>142,279</u>	<u>133,792</u>	<u>3,522,669</u>	<u>3,722,318</u>	<u>3,664,948</u>	<u>3,856,110</u>
Total liabilities	<u>324,298</u>	<u>387,001</u>	<u>3,929,792</u>	<u>4,108,851</u>	<u>4,254,090</u>	<u>4,495,852</u>
Net Assets						
Invested in property and equipment –						
Net of related debt	3,035,858	2,668,280	8,311,618	8,438,277	11,347,476	11,106,557
Restricted	418,673	27,661	207,891	202,708	418,673	230,369
Unrestricted	<u>1,460,687</u>	<u>2,327,365</u>	<u>1,138,577</u>	<u>855,610</u>	<u>2,807,155</u>	<u>3,182,975</u>
Total net assets	<u>\$ 4,915,218</u>	<u>\$ 5,023,306</u>	<u>\$ 9,658,086</u>	<u>\$ 9,496,595</u>	<u>\$ 14,573,304</u>	<u>\$ 14,519,901</u>

City of Algonac, Michigan

Management's Discussion & Analysis For the Year Ended June 30, 2005

Unrestricted net assets for the governmental activities, which is part of net assets that is available to finance day-to-day activities and potential future growth, was approximately \$1.5 million for the year ended June 30, 2005.

The following table presents the changes in net assets for the year ended June 30, 2005:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>June 30,</u>		<u>June 30,</u>			
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 376,144	\$ 381,539	\$ 1,450,681	\$ 1,418,227	\$ 1,826,825	\$ 1,799,766
Operating Grants and Contributions	375,011	353,285	-	-	375,011	353,285
Capital Grants and Contributions	131,329	464,241	-	-	131,329	464,241
General revenue:						
Property taxes	1,243,404	1,190,522	309,799	293,762	1,553,203	1,484,284
Unrestricted Grants and Contributions	463,968	467,837	-	-	463,968	467,837
Investment Income	47,881	26,826	26,873	15,073	74,754	41,899
Gain on Sale of Capital Assets	-	656	-	-	-	656
Total revenue	<u>\$ 2,637,737</u>	<u>\$ 2,884,906</u>	<u>\$ 1,787,353</u>	<u>\$ 1,727,062</u>	<u>\$ 4,425,090</u>	<u>\$ 4,611,968</u>
Functions/Program Expenses						
General Government	281,429	328,652	-	-	281,429	328,652
Public Safety	1,232,370	1,191,282	-	-	1,232,370	1,191,282
Public Works	882,475	721,526	-	-	882,475	721,526
Recreation and Culture	223,371	223,501	-	-	223,371	223,501
Other Activities	125,486	120,689	-	-	125,486	120,689
Interest on Long Term Debt	694	1,879	-	-	694	1,879
Water and Sewer	-	-	1,625,862	1,546,752	1,625,862	1,546,752
Total expenses	<u>2,745,825</u>	<u>2,587,529</u>	<u>1,625,862</u>	<u>1,546,752</u>	<u>4,371,687</u>	<u>4,134,281</u>
Increase in Net Assets	\$ (108,088)	\$ 297,377	\$ 161,491	\$ 180,310	\$ 53,403	\$ 477,687
Net Assets - Beginning of year	<u>5,023,306</u>	<u>4,752,929</u>	<u>9,496,595</u>	<u>9,316,285</u>	<u>14,519,901</u>	<u>14,042,214</u>
Net Assets - End of year	<u>\$ 4,915,218</u>	<u>\$ 5,050,306</u>	<u>\$ 9,658,086</u>	<u>\$ 9,496,595</u>	<u>\$ 14,573,304</u>	<u>\$ 14,519,901</u>

Governmental Activities

Revenue's for the City's governmental activities totaled approximately \$2,638,000. These revenue funds were utilized to provide essential municipal services such as public safety, public works, and street maintenance activities.

Public safety department expenditures accounted for approximately 45% of the governmental activities operational expenditures. The public works and recreation and cultural departments represented 40%, while general and administrative costs totaled 10% of the governmental activities operating costs.

Management's Discussion & Analysis For the Year Ended June 30, 2005

During the year, the City maintained the ability to meet the actuarial required contributions for the employees defined benefit pension plan and has again this year set aside funding for future retiree health care benefits. This is important for the City because future taxpayers should not be required to fund payments that were earned prior to them acquiring residence in the City and with the rising health care costs it is imperative that we have funds to cover the expenditures that will be incurred in the future.

Business-type Activities

The City's Business-type activities are recorded in the Water and Sewer Fund. The City provides water to all of our residents, as well as distributing the water to Clay Township. The water rate has only seen one increase in the past four years from \$2.20 to \$3.25/thousand gallons. During the fiscal year 2005, the water and sewer systems volume of water consumed and sewage treated remained fairly stable in comparison to prior year, which reflects the minor increase revenues stated as Charges for Services from current year to prior year approximately \$1,450,000 to \$1,420,000, respectively. Also, during the year there was a capital purchase in the Water Fund of a water truck for approximately \$30,000.

Water and Sewer revenues for the current year totaled \$1,787,353 compared to \$1,727,062 for the fiscal year ended June 30, 2004. These revenues provided for principal and interest payments of \$320,386 for the City's outstanding Water and Sewer bonds. The balance was used to provide for routine operational and maintenance costs to provide service to the residents, as well as, day-to-day operational costs.

The City's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage City's money for specific purposes as well as show accountability for certain activities. The City's major funds for 2005 include the General Fund, Major & Local Street Funds, and the Capital Projects Fund. The General Fund, specified previously is the fund through which all day-to-day activities are performed. The Major and Local Street fund is used to provide for the tracking of State of Michigan Act 51 major and local road revenue sharing.

The General Fund accounts for most of the City's governmental services. The most significant of these are the police and fire services, which incurred expenditures of approximately \$1.2 million in 2005. The general operating millage levied by the City supports these services. Transfers from other funds, Federal or State grants, and debt issuance proceeds support these funds. The Capital Improvement Fund in fiscal 2005 had activity of and relating to the major capital improvement project for the City Pool.

In the Major Street fund expenditures exceeded revenues by approximately \$5,500, which was due primarily due to cuts in Federal and State funding and an increase in Winter Maintenance expenditures due to the inclement weather conditions that were encountered during the current fiscal year. This amount does not include transfers made to other funds of approximately \$41,000. Winter Maintenance costs increased 51% from current year to prior year with expenditures of \$23,300 and \$11,400, respectively.

City of Algonac, Michigan

Management's Discussion & Analysis For the Year Ended June 30, 2005

In the Local Street fund expenditures exceeded revenues by approximately \$198,000, not including transfers in from other funds of \$41,971. This deficit is due to the many construction projects that took place throughout the current fiscal year, which included the milling and resurfacing of Ruskin Street, Summer Street from State to Scout Street, and Mackie Street from Ruskin to Conley Street. This resurfacing of approximately 4,515 ft of road represents the increase in expenditures from approximately \$17,000 in the prior year to \$234,000 in the current year. The increase in expenditures is also related to the increase in Winter Maintenance costs, which increased by 38% from the current year to prior year from \$24,300 to \$14,100 respectively.

The Capital Projects Fund had expenditures related to the one time capital improvements and purchases that took place at the City Pool. Approximately \$40,000 was spent on upgrades and additional equipment needed to get the City Pool fully functional in order to be better able to serve the residents needs and desires for a place of summer enjoyment.

Budgetary Highlights

Over the course of the year, the City administration and City Council monitor and amend the budget as we attempt to deal with unexpected changes in revenues and expenditures and unanticipated events that occur throughout the course of the year. The City is required by State law to amend the budget to ensure that expenditures do not exceed appropriations.

There were two revisions to the original 2004-2005 budget. In March 2004, Council amended the budget increase/decrease various revenue and expenditure accounts to correspond to actual activity that had taken place throughout the fiscal year up to that point. The only major increase/decreases in revenues were to the Statutory State Shared Revenue which was increase approximately \$26,000, an approximate decrease in sewer service charges of \$45,000, and increase of \$50,000 to water sales to Clay Township based on more accurate figures that were collected at this time period. Also, the major increases/decreases in expenditures were the amendment for additional contributions to Capital Projects for pool renovations and increase for expenditures for the Smith/Michigan Parking Lot & related expenses which originally was not budgeted for the expenditures to fall into this fiscal year. The second budget amendment was to revise the DDA expenditures for various community promotion items such as River Park, Viewfinders, and the Sign Upgrade all of which either required additional funds or items were not purchased in the current fiscal year. Other minor miscellaneous General Fund line item adjustments were made to compensate for changes since the budget was proposed.

Overall, we were generally pleased that the expenditures exceeded revenues by approximately \$197,000, not including transfers to other funds compared to the prior year of \$224,000. In the prior year there was a significant difference in budget to actual and in the current year with the close scrutiny of management we were able to better forecast and modify revenues/expenditures when needed throughout the year as changes happened. The ability to decrease the rate at which expenditures exceeded revenues was attributable to the greater physical restraint performed on behalf of management who were able to control and monitor the department spending and found ways to decrease their discretionary costs while still making significant and needed improvements that were needed throughout the City.

City of Algonac, Michigan

Management's Discussion & Analysis For the Year Ended June 30, 2005

Capital Asset and Debt Administration

As of June 30, 2005, the City had \$15,024,245 invested in a wide range of capital assets including land, buildings, police and fire equipment, computer equipment, and water and sewer equipment & lines which are included in our Governmental & Business-type Activities. In the current fiscal year, the City made capital improvements that included such items as the Smith Street Parking, various Major and Local Street improvements of approximately \$54,000 & \$204,000 respectively, a new van for the DPW, and various machinery and equipment purchases/upgrades in the Finance, Data Processing, Fire and Public Works departments.

	Governmental Activities	Business-type Activities	Total
Land	\$310,559	\$0	\$310,559
Construction in progress	595,570	0	595,570
Buildings and building improvement	1,243,873	11,951,024	13,194,897
Machinery and equipment	104,244	37,256	141,500
Infrastructure	616,823	0	616,823
Licensed Vehicles	164,896	0	164,896
Total Capital Assets	\$3,035,965	\$11,988,280	\$15,024,245

Debt reported in these financial statements is related to the construction and maintenance projects associated with the Water Plant, which are reported as a liability on the statement of net assets (see Note 6 of the notes to the basic financial statements for additional information). During the year the City did not borrow any additional funds in order to acquire new equipment or take on additional maintenance projects.

Economic Factors and Next Year's Budget and Rates

Since 1987, the City has reduced its property tax millage rate from 64.0446 mills to 35.2684 mills for the 2004 calendar year for which taxes are levied; this includes the millages that are levied for all local units. This reduction represents a 45% decrease during that time period, with a 1 mill increase in fiscal 2004 and the total City tax levy has not since been changed. Strong expenditure controls and past growth in the City's tax base have helped to accomplish this planned millage rate reduction. Property taxes make up 56 percent of the General Fund budget. Because of Proposal A, which limits the growth on existing property to the rate of inflation, and due to a lessening of new development and growth in the City, future tax reductions will become more difficult as they were experienced in the current year. These factors along with decreases in revenues from interest on investments and other economic factors have lessened the City's ability to reduce property taxes.

The City has been able to maintain relatively low personnel costs and acquired many new employees to establish an efficient labor force to better serve the City. We do anticipate further increases in pension fund contributions due to the declines experienced with the stock and bond markets. In addition, we expect a continued increase in medical costs. Despite these increased costs, our expenditure increases are anticipated to average between 3 to 4% per year. The City will adjust expenses to mirror the revenue base ensuring the continuation of providing a high level of service expected by the community.

City of Algonac, Michigan

Management's Discussion & Analysis For the Year Ended June 30, 2005

In the case of many surrounding cities of whom rely on the City of Detroit water supply, they are experiencing large increases in water rates over the past few years due to the City of Detroit who supplies a large portion of this areas water supply has forecasted on average a 10 percent increase annually for the next three to five years. We feel we are very fortunate by producing and purifying our own water to pass on the lowest rates as possible, while still supporting and maintaining the facilities in order to prepare the water, to our residents. Although, our water rate charge per thousand gallons of usage has increased once over the past 4 years of \$1.05/thousand gallons in September 2003.

The City has been proactive in preparing for the additional cuts in revenues sources, which are apparent to occur in the upcoming years, from the Statutory State Share Revenue funds that we receive each year. There is a slight decrease in the Statutory State Shared Revenue from approximately \$129,000 in 2004-2005 to \$115,000 in the fiscal year 2005-2006 and there is a projected increase in Constitutional Revenue Sharing from \$313,000 this fiscal year to \$327,000 for fiscal year 2005-2006. Although these amounts are larger than the prior year they are still significant cuts from previous years. Therefore, we still will be taking action to enable our general operations to function with the possibility of further cuts in our State Shared Revenues sources in the future.

With the projected and continued increases that we have been experiencing as well the anticipated future increases related to energy and health care costs, will only cause the City to continually monitor General Fund expenditures to assure that revenues are aligned with expenditures to assure that our Net Assets are protected. This is management's goal to our employees and residents to strive to function in an efficient and effective manor to protect our underlying assets and give the highest quality of service to all without any cuts in city provided services or related items.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the administrative offices at city hall.

BASIC FINANCIAL STATEMENTS

CITY OF ALGONAC, MICHIGAN

STATEMENT OF NET ASSETS JUNE 30, 2005

	Primary Government			
	Governmental Activities	Business Type Activities	Total	Component Unit
ASSETS:				
Cash and cash equivalents	\$ 1,812,177	\$ 984,967	\$ 2,797,144	\$ 32,909
Receivables	20,922	210,690	231,612	143
Due from other governmental units	200,380	22,497	222,877	
Prepaid expenditures/deposits	51,578	6,920	58,498	-
Inventory	1,069	-	1,069	
Internal balances	42,488	(42,488)	-	-
Advance (from) to other funds	74,937	(74,937)	-	-
Restricted Assets -				
Cash	-	386,470	386,470	
Investments	-	34,076	34,076	
Net deposits with St. Clair County	-	71,403	71,403	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	906,129	-	906,129	-
Assets being depreciated	2,129,836	11,988,280	14,118,116	-
Total Assets	5,239,516	13,587,878	18,827,394	33,052
LIABILITIES:				
Accounts payable	81,381	161,234	242,615	-
Accrued liabilities	79,645	11,869	91,514	
Advances and deposits	18,911	-	18,911	-
Deferred revenue	2,082	-	2,082	-
Current liabilities payable from restricted assets	-	234,020	234,020	
Non-current liabilities				
Due within one year	107	-	107	-
Due in more than one year	142,172	3,522,669	3,664,841	-
Total Liabilities	324,298	# 3,929,792	4,254,090	-
NET ASSETS:				
Investment in capital assets, net of related liabilities	3,035,858	8,311,618	11,347,476	-
Restricted				
Acquisition/construction of capital assets	14,746	207,891	222,637	-
Other	403,927	-	403,927	-
Unrestricted	1,460,687	1,138,577	2,599,264	33,052
Total Net Assets	\$ 4,915,218	\$ 9,658,086	\$ 14,573,304	\$ 33,052

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	281,429	99,132	28,766	-
Public Safety	1,232,370	63,279	3,082	-
Public Works	882,475	198,772	292,670	131,329
Recreation and Culture	223,371	14,961	50,493	-
Other Activities	125,486	-	-	-
Interest on Long Term Debt	694	-	-	-
Total governmental activities	<u>2,745,825</u>	<u>376,144</u>	<u>375,011</u>	<u>131,329</u>
Business-type activities				
Water Supply System	1,084,672	916,610	-	-
Wastewater	<u>541,190</u>	<u>534,071</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>1,625,862</u>	<u>1,450,681</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>4,371,687</u>	<u>1,826,825</u>	<u>375,011</u>	<u>131,329</u>
Component Unit				
Downtown Development Authority	<u>4,753</u>	<u>-</u>	<u>523</u>	<u>-</u>
General revenues:				
Property taxes				
Grants and contribution not -				
restricted to specific programs				
Unrestricted investment income				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year				
Net assets at end of year				

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
(153,531)	-	(153,531)	-
(1,166,009)	-	(1,166,009)	-
(259,704)	-	(259,704)	-
(157,917)	-	(157,917)	-
(125,486)	-	(125,486)	-
(694)	-	(694)	-
<u>(1,863,341)</u>	<u>-</u>	<u>(1,863,341)</u>	<u>-</u>
-	(168,062)	(168,062)	-
<u>-</u>	<u>(7,119)</u>	<u>(7,119)</u>	<u>-</u>
<u>-</u>	<u>(175,181)</u>	<u>(175,181)</u>	<u>-</u>
<u>(1,863,341)</u>	<u>(175,181)</u>	<u>(2,038,522)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,230)</u>
1,243,404	309,799	1,553,203	18,366
463,968	-	463,968	-
<u>47,881</u>	<u>26,873</u>	<u>74,754</u>	<u>299</u>
<u>1,755,253</u>	<u>336,672</u>	<u>2,091,925</u>	<u>18,665</u>
(108,088)	161,491	53,403	14,435
<u>5,023,306</u>	<u>9,496,595</u>	<u>14,519,901</u>	<u>18,617</u>
<u>\$ 4,915,218</u>	<u>\$ 9,658,086</u>	<u>\$ 14,573,304</u>	<u>\$ 33,052</u>

CITY OF ALGONAC, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Assets:					
Cash and cash equivalents	\$ 1,434,555	\$ 125,794	\$ 222,247	\$ 29,581	\$ 1,812,177
Receivables -					
Accounts	18,985	-	-	-	18,985
Taxes	1,937	-	-	-	1,937
Due from other governmental units -					
State	141,612	32,352	26,416	-	200,380
Due from other funds	42,488	-	-	-	42,488
Inventory	1,069	-	-	-	1,069
Prepaid expense	51,578	-	-	-	51,578
Advance to other funds	74,937	-	-	-	74,937
	<u>1,767,161</u>	<u>158,146</u>	<u>248,663</u>	<u>29,581</u>	<u>2,203,551</u>
Total Assets	<u>\$ 1,767,161</u>	<u>\$ 158,146</u>	<u>248,663</u>	<u>\$ 29,581</u>	<u>\$ 2,203,551</u>
Liabilities:					
Accounts payable	\$ 64,283	\$ 2,050	213	\$ 14,835	\$ 81,381
Accrued liabilities	79,026	371	248	-	79,645
Local				-	-
Deposits	18,911	-	-	-	18,911
Deferred revenue	2,082	-	-	-	2,082
	<u>164,302</u>	<u>2,421</u>	<u>461</u>	<u>14,835</u>	<u>182,019</u>
Total Liabilities	<u>164,302</u>	<u>2,421</u>	<u>461</u>	<u>14,835</u>	<u>182,019</u>
Fund Balances:					
Reserved -	133,154	-	-	14,746	147,900
Unreserved -					
Designated -	391,506	-	-	-	391,506
Undesignated -					
General Fund	1,078,199	-	-	-	1,078,199
Special Revenue Funds	-	155,725	248,202	-	403,927
Total Equity	<u>1,602,859</u>	<u>155,725</u>	<u>248,202</u>	<u>14,746</u>	<u>2,021,532</u>
Total Liabilities and Fund Equity	<u>\$ 1,767,161</u>	<u>\$ 158,146</u>	<u>\$ 248,663</u>	<u>\$ 29,581</u>	<u>\$ 2,203,551</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

Fund Balances - total governmental funds		\$	2,021,532
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			5,991,269
Accumulated depreciation		(2,955,304)
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Capital lease payable	(107)	
Accrued compensated absences	(142,172)	(142,279)
Net Assets of governmental activities		\$	<u>4,915,218</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ALGONAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	General	Major Street	Local Street	Capital Projects Fund	Total Governmental Funds
Revenues:					
Taxes	\$ 1,243,404	\$ -	-	\$ -	\$ 1,243,404
Licenses and permits	39,906	-	-	-	39,906
Intergovernmental -					
Federal/State	444,173	331,349	92,650	-	868,172
Local	79,259	-	-	-	79,259
Charges for services	237,466	-	-	-	237,466
Fines and forfeits	14,675	-	-	-	14,675
Interest and rent	112,717	2,548	4,549	478	120,292
Other	34,563	-	-	-	34,563
Total Revenues	<u>2,206,163</u>	<u>333,897</u>	<u>97,199</u>	<u>478</u>	<u>2,637,737</u>
Expenditures:					
Current -					
General Government	264,426	-	-	-	264,426
Public Safety	1,153,204	-	-	-	1,153,204
Public Works	631,850	339,409	295,185	43,393	1,309,837
Recreation and Cultural	203,766	-	-	-	203,766
Other	125,486	-	-	-	125,486
Debt Service					
Principal	22,287	-	-	-	22,287
Interest	1,756	-	-	-	1,756
Total Expenditures	<u>2,402,775</u>	<u>339,409</u>	<u>295,185</u>	<u>43,393</u>	<u>3,080,762</u>
Excess of revenues over (under) expenditures	<u>(196,612)</u>	<u>(5,512)</u>	<u>(197,986)</u>	<u>(42,915)</u>	<u>(443,025)</u>
Other Financing Sources (Uses):					
Transfers in	-	-	41,917	30,000	71,917
Transfers out	<u>(30,000)</u>	<u>(41,917)</u>	<u>-</u>	<u>-</u>	<u>(71,917)</u>
Total Other Financing Sources (Uses)	<u>(30,000)</u>	<u>(41,917)</u>	<u>41,917</u>	<u>30,000</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(226,612)</u>	<u>(47,429)</u>	<u>(156,069)</u>	<u>(12,915)</u>	<u>(443,025)</u>
Fund Balances at beginning of year	<u>1,829,471</u>	<u>203,154</u>	<u>404,271</u>	<u>27,661</u>	<u>2,464,557</u>
Fund Balances at end of year	<u><u>\$ 1,602,859</u></u>	<u><u>\$ 155,725</u></u>	<u><u>\$ 248,202</u></u>	<u><u>\$ 14,746</u></u>	<u><u>\$ 2,021,532</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2005**

Net change in fund balances - total governmental funds			\$(443,025)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay				542,959
Depreciation expense	(200,597)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Principal payments on long term liabilities				25,216
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Decrease in accrued interest payable		1,062		
Increase in accrued compensated absences	(<u>33,703</u>)	(<u>32,641</u>)

Change in net assets of governmental activities			<u><u>\$(</u></u>	<u><u>108,088</u></u>)
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The notes to the financial statements are an integral part of this statement.

CITY OF ALGONAC, MICHIGAN

STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2005

	Business Type Activities-Enterprise Funds		
	Water	Sewer	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 640,046	\$ 344,921	\$ 984,967
Receivables	99,856	110,834	210,690
Prepaid expenses/deposits	6,920	-	6,920
Due from other governmental units	22,497	-	22,497
Total Current Assets	<u>769,319</u>	<u>455,755</u>	<u>1,225,074</u>
Restricted Assets:			
Cash	298,551	87,919	386,470
Investments	34,076	-	34,076
Net deposits with St. Clair County	1,708	69,695	71,403
Total Restricted Assets	<u>334,335</u>	<u>157,614</u>	<u>491,949</u>
Property, Plant and Equipment:			
Property, plant and equipment	11,935,708	5,063,260	16,998,968
Less - accumulated depreciation	(2,656,683)	(2,354,005)	(5,010,688)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>9,279,025</u>	<u>2,709,255</u>	<u>11,988,280</u>
Total Assets	<u>10,382,679</u>	<u>3,322,624</u>	<u>13,705,303</u>
LIABILITIES:			
Current Liabilities:			
Accounts payable	42,241	118,993	161,234
Accrued liabilities	11,020	849	11,869
Due to other funds	42,488	-	42,488
Advance from other funds (current portion)	-	12,950	12,950
Total Current Liabilities	<u>95,749</u>	<u>132,792</u>	<u>228,541</u>
391,506			
Current Liabilities - Payable From Restricted Assets:			
Bonds payable (current portion)	141,375	62,414	203,789
Interest payable	18,601	11,630	30,231
	<u>159,976</u>	<u>74,044</u>	<u>234,020</u>
Long-Term Liabilities (less current portions):			
Accrued vacation and sick	49,796	-	49,796
Advance from other funds	-	61,987	61,987
Notes payable (net of current portion)	2,431,475	1,041,398	3,472,873
Total Long-Term Liabilities	<u>2,481,271</u>	<u>1,103,385</u>	<u>3,584,656</u>
Total Liabilities	<u>2,736,996</u>	<u>1,310,221</u>	<u>4,047,217</u>
NET ASSETS:			
Investment in capital assets, net	6,706,175	1,605,443	8,311,618
Restricted	207,891	-	207,891
Unrestricted			
Designated	38,500	14,500	53,000
Undesignated	693,117	392,460	1,085,577
Total Net Assets	<u>\$ 7,645,683</u>	<u>\$ 2,012,403</u>	<u>\$ 9,658,086</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	Business Type Activities-Enterprise Funds		
	Water	Sewer	Total
Operating Revenues:			
Charges for services	\$ 816,267	\$ 483,599	\$ 1,299,866
Other	5,005	404	5,409
Total Operating Revenues	<u>821,272</u>	<u>484,003</u>	<u>1,305,275</u>
Operating Expenses:			
Sewage treatment	-	296,886	296,886
Water treatment and supply - Production	491,875	-	491,875
Water treatment and supply - Transmission	108,593	-	108,593
General and administrative	170,169	87,790	257,959
Depreciation	242,472	108,025	350,497
Total Operating Expenses	<u>1,013,109</u>	<u>492,701</u>	<u>1,505,810</u>
Operating Income (Loss)	<u>(191,837)</u>	<u>(8,698)</u>	<u>(200,535)</u>
Non-Operating Revenues:			
Property taxes levied for debt service	86,816	222,983	309,799
User charges for debt	78,038	47,268	125,306
Tap in fees	17,300	2,800	20,100
Interest earned	19,342	7,531	26,873
Interest expenses	(71,563)	(48,489)	(120,052)
Total Non-Operating Revenues	<u>129,933</u>	<u>232,093</u>	<u>362,026</u>
Net Income (Loss)	(61,904)	223,395	161,491
Net Assets at beginning of year	<u>7,707,587</u>	<u>1,789,008</u>	<u>9,496,595</u>
Net Assets end of year	<u>\$ 7,645,683</u>	<u>\$ 2,012,403</u>	<u>\$ 9,658,086</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business Type Activities-Enterprise Funds		
	Water	Sewer	Total
Cash Flows From Operating Activities:			
Cash receipts from customers	\$ 829,593	\$ 475,208	\$ 1,304,801
Cash payments to suppliers	(607,364)	(319,474)	(926,838)
Cash payments to employees	(188,128)	(19,698)	(207,826)
Net Cash Provided by Operating Activities	<u>34,101</u>	<u>136,036</u>	<u>170,137</u>
Cash Flows From Capital and Related Financing Activities:			
Bond payments -			
Principal	(139,500)	(59,208)	(198,708)
Interest	(72,565)	(49,113)	(121,678)
Property taxes levied for debt service	86,816	222,983	309,799
Deposits with St. Clair County	169	(878)	(709)
Advance from general fund	-	(208,765)	(208,765)
Debt service revenue	78,038	47,268	125,306
Tap in fees	17,300	2,800	20,100
Acquisition and construction of capital assets	(25,130)	-	(25,130)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(54,872)</u>	<u>(44,913)</u>	<u>(99,785)</u>
Cash Flows From Investing Activities:			
Purchase of investments	(275)	-	(275)
Interest earned	19,342	7,531	26,873
Net Cash Provided by Investing Activities	<u>19,067</u>	<u>7,531</u>	<u>26,598</u>
Net Increase (Decrease) in Cash and Cash Equivalents for the year	(1,704)	98,654	96,950
Cash and Cash Equivalen 391,506	<u>940,301</u>	<u>334,186</u>	<u>1,274,487</u>
Cash and Cash Equivalents at End of Year	<u>\$ 938,597</u>	<u>\$ 432,840</u>	<u>\$ 1,371,437</u>
Reconciliation of Net Income (Loss) to			
Net Cash Provided (Used) by Operating Activities:			
Operating income (loss) for the year	\$(191,837)	\$(8,698)	\$(200,535)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -			
Depreciation	242,472	108,025	350,497
Change in assets and liabilities:			
Receivable	(11,398)	(8,795)	(20,193)
Prepays and deposits	(626)	-	(626)
Due from other governmental units	19,719	-	19,719
Accounts payable	(30,942)	45,953	15,011
Accrued liabilities	6,713	(449)	6,264
Net Cash Provided By Operating Activities	<u>\$ 34,101</u>	<u>\$ 136,036</u>	<u>\$ 170,137</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	Agency Funds
	<hr/>
ASSETS:	
Cash and cash equivalents	\$ 22,048
	<hr/> <hr/>
LIABILITIES:	
Undistributed taxes	\$ 22,048
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF ALGONAC, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

The City of Algonac, Michigan, was incorporated December 6, 1967, under the provisions of Act 279, PA 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police, fire, and inspection), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

DISCRETELY PRESENTED COMPONENT UNIT - The City of Algonac Downtown Development Authority (DDA) is reported discretely to emphasize that it is legally separate from the City. The DDA Board is controlled by an eleven-member council, who are appointed by the City Council. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The Authority must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Algonac City Council.

JOINT VENTURES - The Downriver Recreation Commission was organized for the purpose of providing community services to include educational, vocational and recreational aspects for the residents of the City of Algonac, Township of Clay and the Algonac Community School System. The Commission is dependent upon these entities for its existence as they jointly provide annual financial resources for its operation. The joint venture was made March 25, 1991 pursuant to the Authority granted by the Urban Cooperation Act of 1967, being MCL 124.501 and by Authority granted by MCL 124.531.

The Commission is a separate legal and administrative entity with nine commission members, three each appointed by the City of Algonac, Clay Township and Algonac Community Schools.

The City of Algonac appropriates funds annually to assist with the day-to-day operations of the Commission. For the year ended June 30, 2005, the City of Algonac appropriated \$40,144. Complete financial statements may be obtained from the administrative offices of the Algonac Middle School, 9185 Marsh Road, Algonac, MI 48001.

RELATED ORGANIZATIONS - The Algonac Housing Authority (AHA), is a related organization as the City Commission appoints the board of the AHA, but it is not financially accountable.

There were no related party transactions between the City of Algonac and the Housing Authority for the fiscal year ended June 30, 2005.

CITY OF ALGONAC, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

B. Government-wide and fund financial statements –

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governments is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

CITY OF ALGONAC, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and due on August 31, are recognized as revenue in the year due. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund – is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund – is a special revenue fund used to account for ACT 51 money and other related revenues restricted for major street construction and maintenance of major streets.

Local Street Fund – is a special revenue fund used to account for Act 51 money and other related revenues restricted for local street construction and maintenance of local streets.

Capital Projects Fund – is used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

The City reports the following major proprietary funds:

Water Fund – is used to account for the treatment and distribution of water to residential and commercial users.

Sewer Fund – is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the City reports the following fund types –

Agency Fund – is used to account for assets held by the City as an agent for other governments and other funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF ALGONAC, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Funds are charges to customers for sale and services. Operating expenses from Enterprise Funds include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Deposits and Investments –

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition. The investment trusts have the general characteristics of demand deposit accounts in that the City may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

Investments are recorded at fair value. For the purpose of the Statement of Cash Flows presented for the Proprietary Fund Type, the City considers all highly liquid investments (including restricted assets) with original maturities of ninety days or less to be cash equivalents.

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property the receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items –

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF ALGONAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Property Tax Calendar –

The City's property tax is levied as of July 1 on the assessed valuation of property located in the City as of the preceding December 31. The taxes are due on August 31 with final collection date as of February 28, after which they are added to the delinquent tax roll. The city also collects taxes for the County, Intermediate School District, Community College and Local School District. Collections of all taxes other than City taxes and the remittance of them are accounted for in the Tax Collection Fund.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Property, plant, and equipment of the primary government, as well as the component unit, is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>
Buildings and improvements	10-50
Utility systems	5-50
Machinery and equipment	5-10
Vehicles	8-15
Infrastructure	10-20

Compensated Absences –

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vested vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements.

CITY OF ALGONAC, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information –

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

- 1) Prior to April 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budgets include proposed expenditures and the means of financing them.
- 2) A Public Hearing is conducted to obtain taxpayers' comments.

CITY OF ALGONAC, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont'd):

- 3) Prior to June 15, the budget is legally enacted through passage of a resolution. The budgets are legally enacted at the activity level for the General Fund and the Major and Local Street (Special Revenue) Funds.
- 4) Any amendments to the budget must be approved by City Council.
- 5) Budget appropriations lapse at year end.
- 6) The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.
- 7) Budgeted amounts are reported as originally adopted, or as amended by the City Council during the year. Individual amendments were not material in relation to the original appropriation.

The legally approved budgets of the City for the General and Special Revenue funds were adopted at the activity level. Expenditures at these legally adopted levels are a violation of the Budgetary Act. During the year the City incurred expenditures in the General and Special Revenue Fund which was in excess of the amount appropriated as follows:

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
General Fund –			
General Government –			
City Council	18,900	20,485	1,585
City Clerk	79,479	80,833	1,354
Property Tax Services	5,100	9,212	4,112
Public Works –			
Department of Public Works	624,960	631,850	6,890
Recreation and Cultural –			
Parks and recreation	134,656	156,249	21,593
Other Cultural	39,770	47,517	7,747
Debt Service –			
Principal	12,021	24,043	12,022
Special Revenue –			
Major Street Fund –			
Construction	133,694	270,482	136,788
Winter Maintenance	11,946	23,291	11,345
Local Street Fund –			
Winter Maintenance	12,417	23,213	10,796
Administrative/Engineering	8,812	9,012	200

CITY OF ALGONAC, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2005, the carrying amount of the deposits and investments is as follows:

	Primary Government	Fiduciary Funds	Component Unit	Total
Deposits -				
Cash on hand –				
Petty Cash	\$ 750	\$ -	\$ -	\$ 750
Deposits with Financial Institutions -				
Checking/Money Market	885,324	22,048	32,909	940,281
Savings/Certificates of Deposit	<u>34,076</u>	<u>-</u>	<u>-</u>	<u>34,076</u>
Total Deposits	920,150	22,048	32,909	975,107
Investments -				
Investment Trust Funds	<u>2,297,540</u>	<u>-</u>	<u>-</u>	<u>2,297,540</u>
	<u>\$ 3,217,690</u>	<u>\$ 22,048</u>	<u>\$ 32,909</u>	<u>\$ 3,272,647</u>
Reconciliation To Combined Balance Sheet				
Reported as Cash and Cash Equivalents -				
Petty Cash	\$ 750	\$ -	\$ -	\$ 750
Cash in Checking/Money Market	885,324	22,048	32,909	940,281
Investment Trust Funds	<u>2,297,540</u>	<u>-</u>	<u>-</u>	<u>2,297,540</u>
Total Cash and Cash Equivalents	3,183,614	22,048	32,909	3,238,571
Reported as Investments –				
Certificates of Deposits	<u>34,076</u>	<u>-</u>	<u>-</u>	<u>34,076</u>
	<u>\$ 3,217,690</u>	<u>\$ 22,048</u>	<u>\$ 32,909</u>	<u>\$ 3,272,647</u>

The City's investment policy primary objectives, in order of priority, are safety liquidity, diversification and return on investment. The City Treasurer is responsible for the investment program.

Custodial Credit Risk – is the risk that in the event of a bank failure, the City's deposit or investments may not be returned. The City investment policy does not address credit risk.

Interest Rate Risk – is the risk that the market value of securities in the City's portfolio will fall due to changes in the market interest increases. The City attempts to minimize interest rate by maintaining liquidity to meet all operating requirements without the need to sell securities prior to maturity and investing operation funds primarily in short term securities, money markets mutual funds, or similar public investment pools.

Credit Risk – is the risk that in an issuer or other counterparty to an investment will not fulfill its obligation. State laws and City policy limit the types of investments the City can purchase.

Concentration of Credit Risk – is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy specifies that investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio, to the extent practicable.

CITY OF ALGONAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Deposits –

The City's investment policy and Act 217 PA 1982, as amended, authorizes the City to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2005 the bank balance of the City's deposits were \$758,811 of which \$134,076 was FDIC insured with the balance \$624,735 exposed to credit risk because they are uninsured and uncollateralized.

Investments -

Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the City to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

As of June 30, 2005, the City held investments in the following mutual funds/investment trusts, which invested primarily in securities of the U. S. Government or its agencies, certificates of deposit, commercial paper, banker acceptance, etc:

<u>Account Name</u>	<u>Fair Market Value</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
Bank One –			
Governmental Operating Money Market	501,622	Not Rated	31 days
Comerica Bank			
Fund J	1,247,764	Not Rated	70% less than 30 days 30% is 30-90 days
Standard Federal/LaSalle Bank	548,154	Aaa	12 days

CITY OF ALGONAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

The mutual funds/investments trusts have been reported in the financial statements as a cash equivalent since they have the general characteristics of demand deposit accounts in that the City may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The compensation of interfund balances as of June 30, 2005 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due From/To Other Funds-		
General Fund	Water Fund	\$ 42,488
Advance To/From Other Funds –		
General Fund	Sewer Fund	\$ 74,937
Transfers From/To Other Funds		
	<u>Transfers Into Fund</u>	<u>Transfers Out of Fund</u>
	Local Street	\$ 41,917
	Capital Projects	30,000
		<u>\$ 71,917</u>

NOTE 5 - CAPITAL ASSETS:

Capital asset activity of the primary government for the year ended June 30, 2005 was as follows:

	July 1, 2004			June 30, 2005
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 310,559	\$ -	\$ -	\$ 310,559
Construction in progress	464,241	131,329	-	595,570
Total capital assets, not being depreciated	<u>774,800</u>	<u>131,329</u>	<u>-</u>	<u>906,129</u>
Capital assets, being depreciated:				
Buildings and improvements	2,279,318	-	-	2,279,318
Infrastructure	377,844	355,122	-	732,966
Machinery and equipment	360,225	27,331	-	387,556
Vehicles	1,672,339	29,177	16,216	1,685,300
Total capital assets being depreciated	<u>4,689,726</u>	<u>411,630</u>	<u>16,216</u>	<u>5,085,140</u>
Less accumulated depreciation for:				
Buildings and improvements	952,749	82,696	-	1,035,445
Infrastructure	83,281	32,862	-	116,143
Machinery and equipment	270,493	12,819	-	283,312
Vehicles	1,464,400	72,220	16,216	1,520,404
Total accumulated depreciation	<u>2,770,923</u>	<u>200,597</u>	<u>16,216</u>	<u>2,955,304</u>
Total capital assets being depreciated, net	<u>1,918,803</u>	<u>211,033</u>	<u>-</u>	<u>2,129,836</u>
Governmental activities capital assets, net	<u>\$2,693,603</u>	<u>\$ 342,362</u>	<u>\$ -</u>	<u>\$ 3,035,965</u>

CITY OF ALGONAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 5 - CAPITAL ASSETS – (cont'd):

	July 1, 2004 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2005 <u>Balance</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 928,755	\$ -	\$ 928,755	\$ -
Capital assets, being depreciated:				
Machinery and equipment	270,395	2,749	-	273,144
Water plant, mains, hydrants and service lines	11,653,225	77,137	-	11,730,362
Sewer plant, mains and service sewers	<u>4,121,463</u>	<u>873,999</u>	-	<u>4,995,462</u>
Total capital assets being depreciated	<u>16,045,083</u>	<u>953,885</u>	-	<u>16,998,968</u>
Less accumulated depreciation for:				
Machinery and equipment	228,091	7,797	-	235,888
Water plant, mains, hydrants and service lines	2,241,278	237,975	-	2,479,253
Sewer plant, mains and service sewers	<u>2,190,822</u>	<u>104,725</u>	-	<u>2,295,547</u>
Total accumulated depreciation	<u>4,660,191</u>	<u>350,497</u>	-	<u>5,010,688</u>
Total capital assets being depreciated, net	<u>11,384,892</u>	<u>603,388</u>	-	<u>11,988,280</u>
Business activities capital assets, net	<u>\$12,313,647</u>	<u>\$ 603,388</u>	<u>\$ 928,755</u>	<u>\$11,988,280</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 17,852
Public Safety	66,561
Public Works	55,866
Recreation and Cultural	<u>60,318</u>
Total depreciation expense-governmental activities	<u>\$ 200,597</u>
 Business-type activities:	
Sewer	\$ 108,025
Water	<u>242,472</u>
Total depreciation expense-business-type activities	<u>\$ 350,497</u>

CITY OF ALGONAC, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 - LONG-TERM LIABILITIES:

The following is a summary of changes in the long-term liabilities (including current portions) of the Primary Government for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
<u>Governmental Activities:</u>					
Governmental Fund -					
Copier lease	\$ 3,036	\$ -	\$ 2,929	\$ 107	\$ 107
Capital lease payable	22,287	-	22,287	-	-
Accrued sick and vacation	108,469	33,703	-	142,172	-
Total Governmental Funds	<u>133,792</u>	<u>33,703</u>	<u>25,216</u>	<u>142,279</u>	<u>107</u>
<u>Business-type activities:</u>					
Water Supply System Revenue					
Bonds	\$ 254,000	\$ -	\$ 12,000	\$ 242,000	\$ 12,000
1998 Water Supply System/ Contracts Payable	2,458,350	-	127,500	2,330,850	129,375
Accrued vacation and sick payable	45,656	4,140	-	49,796	-
1999 Sewage Disposal System					
Bonds/Contracts Payable	290,020	-	30,708	259,312	32,414
2003 Sewage Disposal System					
Bonds/Contracts Payable	873,000	-	28,500	844,500	30,000
	<u>3,921,026</u>	<u>4,140</u>	<u>198,708</u>	<u>3,726,458</u>	<u>203,789</u>
	<u>\$ 4,054,818</u>	<u>\$ 37,843</u>	<u>\$ 223,924</u>	<u>\$ 3,868,737</u>	<u>\$ 203,896</u>

Significant details regarding outstanding long-term liabilities (including current portion) are presented below:

Revenue Bonds –

Water Supply System Revenue Series II Bond, dated May 1, 1964, due in annual installments ranging from \$12,000 to \$24,000 through March 1, 2019, with interest of 5%, payable semi-annually.

\$ 242,000

Water Supply and Sewage Disposal System – Contracts Payable –

St. Clair County has issued three General Obligation Bonds for the purpose of expanding the systems and treatment facilities in the City of Algonac.

Pursuant to provisions of Act 185, Public Acts of Michigan, 1957, as amended, the City of Algonac and other applicable municipalities and the County of St. Clair have entered into contracts whereby the City has agreed to pay the County annual installments to retire the City's portion of the various bond issues, plus interest. In order to pay such amounts to the County, the City and other applicable municipalities are obligated, to the extent necessary, to levy ad valorem taxes without limitation as to the rate or amount on all taxable property. It is the intention of the City Council to pay the City's portion of the obligation from tax levies, debt retirement charges and operating revenue. The contract payables recorded in the Enterprise Fund (Water and Sewer Fund) are comprised of the following:

CITY OF ALGONAC, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 6 - LONG-TERM LIABILITIES – (cont'd):

The City of Algonac upgraded and made various improvements to its Water Filtration Plant. In order to finance the cost of the improvements the St. Clair County Department of Public Works has participated in the Drinking Water Revolving Fund through which the Department of Environmental Quality Bonds have been sold in the amount of \$7,830,600. Through contracts with the City of Algonac and Clay Township, the City is required to repay 37.5% of the loan including interest and the Township 62.5%. As of June 30, 2005 the outstanding loan at the County is \$6,215,600.

\$ 2,330,850

General obligation bonds, dated November 1, 1999, in the amount of \$2,160,000 were sold for the purpose of constructing improvements and new pump stations for the St. Clair County Sewage Disposal System No. I, which serves the City of Algonac, the Township of Clay and the Township of Ira. The City of Algonac, (17.06%), Clay Township (43.28%) and Ira Township (39.66%) repay their respective share of principle and interest. The City of Algonac share ranges from \$30,708 to \$40,091 through April 1, 2012, plus interest ranging from 5.0 to 5.125%, payable semi-annually.

\$ 259,312

\$3,000,000 were sold for the purpose of paying costs of construction of sewage disposal system improvements to service the City of Algonac, the Township of Clay and the Township of Ira. The City of Algonac, (30.00%), Clay Township (35.00%) and Ira Township (35.00%) repay their respective share of principle and interest. The City of Algonac share ranges from \$28,500 to \$69,000 through April 1, 2023, plus interest ranging from 3.375% to 4.6%, payable semi-annually.

\$ 844,500

\$ 1,103,812

Copier Lease –

The City has entered into a capital lease to finance the purchase of a copier. See Note 7 for additional information.

\$ 107

CITY OF ALGONAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 6 - LONG-TERM LIABILITIES – (cont'd):

The annual requirements to amortize long-term liabilities outstanding at June 30, 2005, are as follows:

Year	Water Supply System Revenue Bonds		Sewer Disposal System Bonds		Drinking Water Revolving Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 129,375	\$ 56,654	\$ 62,414	\$ 45,710	\$ 12,000	\$ 12,100
2007	133,125	53,373	65,620	43,035	13,000	11,500
2008	136,875	49,998	68,826	40,223	14,000	10,850
2009	140,625	46,529	72,032	37,275	15,000	10,150
2010	144,375	42,967	75,238	34,183	16,000	9,400
2011-2015	770,625	158,677	291,682	129,083	95,000	34,000
2016-2020	875,850	55,830	270,000	79,698	77,000	8,600
2021-2024	-	-	198,000	18,234	-	-
	<u>\$2,330,850</u>	<u>\$ 464,028</u>	<u>\$1,103,812</u>	<u>\$ 427,441</u>	<u>\$ 242,000</u>	<u>\$ 96,600</u>

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the City of Algonac, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the fund financial statements in the Water and Sewer Fund, and the Governmental Activities in the amounts of \$49,796 and \$142,172, respectively at June 30, 2005.

NOTE 7 - CAPITAL LEASES:

The City has entered into lease purchase agreements to finance the acquisition of office equipment. The lease agreement qualifies as a capital lease for accounting purposes (agreement provides for a bargain purchase option at end of the lease term) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of its inception.

Commitments under this lease agreement provides for minimum annual payments as follows:

Office Equipment

Year Ending June 30,	Principal	Interest	Total
2005	<u>\$ 107</u>	<u>\$ 2</u>	<u>\$ 109</u>

CITY OF ALGONAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 8 - EMPLOYEE PENSION PLAN:

Plan Description -

The City of Algonac participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The City is required to contribute at an actuarially determined rate. The computed employer contribution rate for 2005 ranged from 4.0% to 9.80%. The contribution requirements of plan members and the City are established and may be amended by the City Council, depending on the MERS contribution program adopted by the City.

Annual Pension Costs -

For the year ended June 30, 2005 the City's annual pension cost of \$83,299 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

Three-Year Trend Information

Fiscal Year Ending June 30,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2003	\$ 86,896	100 %	\$ -
2004	90,152	100	-
2005	83,299	100	-

CITY OF ALGONAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 8 - EMPLOYEE PENSION PLAN – (cont'd):

Schedule of Funding Progress

Valuation Date	Actuarial Value of of Assets (a)	Unfunded Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)(c)
2002	\$ 2,031,504	\$ 2,446,909	\$ 415,405	83%	\$1,181,891	35%
2003	2,332,706	2,802,226	469,520	83	1,295,468	36
2004	2,629,079	3,120,202	491,126	84	1,262,770	39

NOTE 9 - RISK MANAGEMENT:

General Liability

The City participates in the Michigan Municipal Risk Management Authority Liability and Property Pool liability insurance program. The City carries \$5,000,000 of liability coverage with a \$250 per claim deductible vehicle, crime and property.

Workers' Compensation

The City participates in the Michigan Municipal Workers' Compensation Self-Insurance Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

NOTE 10 - RESTRICTED ASSETS:

As of June 30, 2005, the City had the following assets restricted for specific purposes:

Water Fund –

Per ordinance 151 – cash restricted for asset replacement and debt service	\$ 45,050
Debt retirement	114,394
Capital improvement/replacement	173,183
Deposit with DPW	<u>1,708</u>
	<u>334,335</u>

Sewer Fund –

Debt retirement	87,919
Deposit with St. Clair County for sewer improvements	26,879
Deposit with St. Clair County Waste Water Treatment Plant	<u>42,816</u>
	<u>157,614</u>
	<u>\$ 491,949</u>

CITY OF ALGONAC, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 11 - FUND EQUITY – RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS:

Reserved Fund Balance –

Fund Balance has been reserved in various governmental funds to indicate the portion of Fund Balance not available but reserved for a specific purpose. The following is a summary of the reserved fund balance at June 30, 2005:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Inventory	\$ 1,069
	Prepaid Expense	51,578
	Advance to Other Funds	74,937
	Drug forfeiture	4,737
	Police Training	<u>833</u>
		133,154
Capital Improvement Fund	Capital Improvement	<u>14,746</u>
		<u>\$ 147,900</u>

Designated Fund Balance –

The City Council has the power to designate or set aside all or a portion of unreserved Fund Balance for specific purposes. The following is a summary of Council designated Fund Balance at June 30, 2005:

General Fund –		
Library		\$ 16,381
Fire truck		45,288
Litigation		28,000
Tax Tribunal		18,000
Emergency Services		5,000
Memorial/Gazebo		1,210
Unemployment		7,197
Historical Preservation		220,430
Retiree Health Benefits		<u>50,000</u>
		<u>\$ 391,506</u>

Reserved Retained Earning –

Retained Earnings have been reserved in various proprietary type funds to indicate that portions of Retained Earnings are restricted for specific purposes. The following is a summary of Reserved Retained Earnings for all Proprietary Funds at June 30, 2005:

Water Fund –		
Capital Improvement/Asset Replacements		<u>\$ 207,891</u>

CITY OF ALGONAC, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 11 - FUND EQUITY – RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS – (cont'd):

Designated Retained Earnings –

The City Council has the power to designate or set aside all or a portion of Unreserved Retained Earnings for specific purposes. The following is a summary of council's designated retained earnings at June 30, 2005:

Water Fund –	
Water Tower	\$ 30,000
Pick up Truck	8,500
Sewer Fund –	
Equipment Replacement	6,000
Pick up truck	<u>8,500</u>
	<u>\$ 53,000</u>

NOTE 12 - SEWAGE DISPOSAL SYSTEM AGREEMENT:

In accordance with an agreement signed November 1976, the County acquired legal ownership of the City of Algonac Sewage Disposal System and, as of July 14, 1977, assumed responsibility for administering, operating, and maintaining the system. The City has agreed to pay the County charges sufficient to provide from the City's share of expenses incurred by the County and to provide for future maintenance, repairs and replacement.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ALGONAC, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

GENERAL FUND

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 1,235,003	\$ 1,236,938	\$ 1,243,404	\$ 6,466
Licenses and permits	43,370	43,245	39,906	(3,339)
Intergovernmental -				
State	427,288	446,245	444,173	(2,072)
Local	56,994	83,260	79,259	(4,001)
Charges for services	239,985	241,429	237,466	(3,963)
Fines and forfeits	19,250	17,250	14,675	(2,575)
Interest and rents	103,556	87,379	112,717	25,338
Other	71,440	78,481	34,563	(43,918)
	<u>2,196,886</u>	<u>2,234,227</u>	<u>2,206,163</u>	<u>(28,064)</u>
Expenditures:				
General Government -				
City Council	16,920	18,900	20,485	(1,585)
City Manager	88,212	90,765	88,351	2,414
Elections	7,700	8,883	7,546	1,337
City Clerk	76,583	79,479	80,833	(1,354)
Finance department	167,272	166,733	160,228	6,505
General administration	98,050	88,475	73,701	14,774
Data processing department	7,000	11,865	9,947	1,918
Property tax services	5,100	5,100	9,212	(4,112)
Assessor	24,328	23,428	23,302	126
City Hall and grounds	55,620	45,870	42,008	3,862
	<u>546,785</u>	<u>539,498</u>	<u>515,613</u>	<u>23,885</u>
Less: Reimbursement from other funds	<u>(273,996)</u>	<u>(259,996)</u>	<u>(251,187)</u>	<u>(8,809)</u>
Total General Government	<u>272,789</u>	<u>279,502</u>	<u>264,426</u>	<u>15,076</u>
Public Safety -				
Fire department	275,962	268,387	262,789	5,598
Police department	769,474	808,900	773,637	35,263
Inspections	110,472	116,194	110,004	6,190
Planning Commission	7,900	6,700	6,510	190
Zoning Board of Appeals	700	700	264	436
	<u>1,164,508</u>	<u>1,200,881</u>	<u>1,153,204</u>	<u>47,677</u>
Public Works -				
Department of public works	<u>592,383</u>	<u>624,960</u>	<u>631,850</u>	<u>(6,890)</u>

Continued

CITY OF ALGONAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2005

GENERAL FUND

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Recreational and Cultural-				
Parks and recreation	137,332	134,656	156,249	(21,593)
Other cultural	48,830	39,770	47,517	(7,747)
	<u>186,162</u>	<u>174,426</u>	<u>203,766</u>	<u>(29,340)</u>
Other Expenditures	\$ 136,852	\$ 152,591	\$ 125,486	\$ 27,105
Debt Service -				
Principal	-	12,021	22,287	(10,266)
Interest	-	-	1,756	(1,756)
	<u>-</u>	<u>12,021</u>	<u>24,043</u>	<u>(12,022)</u>
Total Expenditures	<u>2,352,694</u>	<u>2,444,381</u>	<u>2,402,775</u>	<u>41,606</u>
Excess of revenues over (under) expenditures	(155,808)	(210,154)	(196,612)	13,542
Other Financing Sources (Uses):				
Operating transfers out	<u>-</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>
Excess of revenues and other sources under expenditures and other uses	(155,808)	(240,154)	(226,612)	13,542
Fund Balance at beginning of year	<u>1,829,471</u>	<u>1,829,471</u>	<u>1,829,471</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 1,673,663</u>	<u>\$ 1,589,317</u>	<u>\$ 1,602,859</u>	<u>\$ 13,542</u>

CITY OF ALGONAC, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2005**

MAJOR STREET FUND

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental -				
State - Act 51	\$ 203,994	\$ 190,000	\$ 200,020	\$ 10,020
Federal	-	-	131,329	131,329
Interest	3,894	3,894	2,548	(1,346)
	<u>207,888</u>	<u>193,894</u>	<u>333,897</u>	<u>140,003</u>
Total Revenues				
Expenditures:				
Public Works				
Construction	-	133,694	270,482	(136,788)
Routine Maintenance	36,471	27,441	19,456	7,985
Bridge Maintenance	729	729	85	644
Traffic Services Maintenance	5,272	5,715	5,469	246
Winter Maintenance	16,806	11,946	23,291	(11,345)
Administration/Engineering	20,399	21,399	20,626	773
	<u>79,677</u>	<u>200,924</u>	<u>339,409</u>	<u>(138,485)</u>
Total expenditures				
Excess of revenues over (under) expenditures	128,211	(7,030)	(5,512)	1,518
Other Financing Uses:				
Transfers out	(50,999)	(50,999)	(41,917)	9,082
	<u>(50,999)</u>	<u>(50,999)</u>	<u>(41,917)</u>	<u>9,082</u>
Excess of revenues over (under) expenditures and other uses	77,212	(58,029)	(47,429)	10,600
Fund Balance at beginning of year	203,154	203,154	203,154	-
Fund Balance at end of year	<u>\$ 280,366</u>	<u>\$ 145,125</u>	<u>\$ 155,725</u>	<u>\$ 10,600</u>

CITY OF ALGONAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2005

LOCAL STREET FUND

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental -				
State - Act 51	\$ 80,000	\$ 80,000	\$ 79,017	\$(983)
State - Metro Act	-	-	13,633	13,633
Interest	4,000	4,000	4,549	549
Total Revenues	<u>84,000</u>	<u>84,000</u>	<u>97,199</u>	<u>13,199</u>
Expenditures:				
Public Works -				
Construction	120,000	241,304	233,530	7,774
Routine Maintenance	31,242	32,112	24,765	7,347
Bridge Maintenance	4,516	1,376	512	864
Traffic Services Maintenance	5,377	5,377	4,153	1,224
Winter Maintenance	19,839	12,417	23,213	(10,796)
Administration/Engineering	7,812	8,812	9,012	(200)
Total Expenditures	<u>188,786</u>	<u>301,398</u>	<u>295,185</u>	<u>6,213</u>
Excess of revenues over (under) expenditures	(104,786)	(217,398)	(197,986)	19,412
Other Financing Sources:				
Transfers in	<u>50,999</u>	<u>50,999</u>	<u>41,917</u>	<u>(9,082)</u>
Excess of revenues and other sources over (under) expenditures and other uses	(53,787)	(166,399)	(156,069)	10,330
Fund Balance at beginning of year	<u>404,271</u>	<u>404,271</u>	<u>404,271</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 350,484</u></u>	<u><u>\$ 237,872</u></u>	<u><u>\$ 248,202</u></u>	<u><u>\$ 10,330</u></u>

FIDUCIARY FUNDS

CITY OF ALGONAC, MICHIGAN

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
TOTAL ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	\$ 3,011	\$ 10,753,107	\$ 10,734,070	\$ 22,048
Liabilities:				
Undistributed taxes	3,011	5,550,957	5,531,920	22,048
Due to other funds	-	1,341,068	1,341,068	-
Accrued liabilities	-	3,235,850	3,235,850	-
Total Liabilities	\$ 3,011	\$ 10,127,875	\$ 10,108,838	\$ 22,048

COMPONENT UNITS

CITY OF ALGONAC, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET
JUNE 30, 2005**

ASSETS

Current Assets:

Cash and cash equivalents	\$ 32,909
Accounts receivable	<u>143</u>
Total Assets	<u><u>33,052</u></u>

FUND BALANCE

Fund Balance:

Unreserved - Undesignated	<u><u>\$ 33,052</u></u>
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**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Taxes	\$ 15,348	\$ 18,366	\$ 3,018
Interest	800	299	(501)
Other	<u>400</u>	<u>523</u>	<u>123</u>
Total Revenues	16,548	19,188	2,640
Expenditures:			
Public Works - Miscellaneous	<u>6,317</u>	<u>4,753</u>	<u>1,564</u>
Excess of revenues over expenditures	10,231	14,435	4,204
Fund Balance at beginning of year	<u>18,617</u>	<u>18,617</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 28,848</u></u>	<u><u>\$ 33,052</u></u>	<u><u>\$ 4,204</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Algonac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Algonac, Michigan, as of and for the year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Algonac, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involving matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Algonac's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below:

All bank accounts should be reconciled on a monthly basis.

During our audit, it was noted that the "concentrated cash" and "payroll" accounts did not reconcile to the preliminary trial balances that we were provided. We were subsequently provided entries that reconciled these accounts to within insignificant differences.

We recommend that these accounts be reconciled on a monthly basis.

Controls over the utility billing could be improved.

At the current time, the same individual prepares and mails utility billings, receives cash, and is authorized to make journal entries. In addition, the general ledger and utility accounts receivable ledger was not reconciled on a monthly basis. We recommend that the City review the duties and segregate as many of the duties as possible. In addition, we recommend the Water Superintendent periodically review the billing reports for reasonableness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Algonac, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under ***Government Auditing Standards***.

We also noted certain other matters that we reported to management of the City of Algonac in a separate letter dated October 24, 2005.

This report is intended solely for the information and use of the audit committee, management and the City Council of the City of Algonac, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Stewart, Beauvais & Whipple".

Certified Public Accountants

October 24, 2005

MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council
City of Algonac, Michigan

As you know, we have recently completed our audit of the basic financial statements of the City of Algonac, Michigan as of and for the year ended June 30, 2005. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the City's recordkeeping system. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in *the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, dated October 24, 2005, the conditions described below are not considered reportable conditions or material weaknesses.

The City should investigate whether the Milford Jackson Trust should be reported as a permanent trust fund of the City.

A number of years ago the Estate of Milford Jackson established a trust at a local financial institution with the income to be distributed annually to the City. Although the City has little, if any control over the trust, it appears that the assets technically belong to the City, and therefore should be reported as a permanent trust fund of the City.

We suggest the City consult with the City attorney and the financial institution maintaining the trust to determine if the trust belongs to the City and should be reported as a permanent fund.

Controls over the journal entry process could be improved.

During our audit it was noted that there is not evidence that journal entries were reviewed and approved by a second individual. To increase controls we recommend that each month a journal entry report be run and reviewed and approved by the City Manager.

Due from (to) other funds should be reconciled on a monthly basis.

As of June 30, 2005, there were a couple of funds where the due from a particular fund did not always agree to the offsetting fund. Subsequent entries were provided or audit entries were made to reconcile these accounts. However, we recommend that these accounts be reconciled on a monthly basis.

The Pension Payable account should be reconciled to the amounts owed at the end of each month.

The pension payable account had a debit balance of \$16,525 on the preliminary trial balance at June 30, 2005. Normally this account should have a credit balance. Entries were subsequently provided that reduces the account to a debit balance of \$2,755. We recommend that the account be reconciled to the amount owed.

This report is intended solely for the information and use of management, the City Council, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvois & Whipple".

October 24, 2005